

## ATM FEES AND DEPOSITS

by [Steve Brown](#)

Having just spent a week in Texas, we have a couple of observations to share: 1) Texans eat way too many fried foods; 2) Texans carry way too many guns; 3) Texas banks are just starting to waive ATM fees to gather deposits. The last point is particularly interesting for bankers, since we are starting to see widespread adoption of this product attribute. In 2005, banks saw strong competition in CDs; in 2006 the battle was over the MMDA account. Now, in 2007, the fighting is over the checking account. Starting with East Coast independent banks last year, the trend to bolster DDA balances has included more bells and whistles than an El Paso ranch. One particularly popular bell these days is the reimbursement of ATM fees for out-of-network or "foreign" ATM transactions. This trend has now caught on in Texas and should become more widespread throughout the Mid-West, as well as the West Coast. Given that the average foreign fee is \$1.29 and the average surcharge is now \$1.82, banks are paying an additional \$3.11 per transaction. Our research shows that the average customer conducts 7 out of area ATM transactions per month, for a total cost of approximately \$21.77. A popular structure is to offer a middle-tier account that allows a maximum reimbursement for up to 6 foreign ATM transactions per month and a premium account that allows unlimited reimbursement. If you figure that you require a \$6,000 balance or above on either account, you are still money good on the margin. For banks that are bundling products to better distribute profitability, the average minimum balance is \$2,500. While no one likes to heap additional costs onto the infrastructure of the bank, this tactic can be used both defensively and offensively to support core deposit balances. From a defensive point of view, reimbursing ATM fees may be needed to stem customer defection when larger banks compete on service. From an offensive point of view, this promotion can be particularly potent for independent banks. Studies show one of the main reasons the important 35-to-45 year old demographic does not utilize deposit capabilities from their local independent bank is because of limited access to their account. Give someone unlimited access via ATM and you win over a portion of these customers. This tactic also works well when expanding into new markets where the bank may not have a widespread ATM network. This tactic makes the most sense for users of relationship profitability systems that already know the value of their best customers and need to protect those accounts from being poached from the likes of Wamu or Wells Fargo. Due to intense competition in the checking account market, banks should at least consider this strategy as a means to attract balances. Texas has always served as a bellwether in our industry. When banks in Texas start adopting a trend, you can be pretty sure it is here to stay. As mentioned before, Texans also tend to have high blood pressure and firearms - so we are not about to tell them anything different.

## BANK NEWS

### **M&A**

Spain's 2nd largest bank, Banco Bilbao Vizcaya Argentaria (\$411B, Spain), will buy Compass Bancshares (\$34B, AL) for \$9.6B, or about 3.5x book value. The move enlarges BBVA's U.S. branch network to 622, increases assets to \$47B, makes the bank the 20th largest in the country.

### **M&A**

CheckFree will buy Internet-banking software maker Corillian for \$245mm in cash. Corillian's internet banking applications support over 25% of the online banking users in the U.S. and are used by 28 of the top 100 banks.

### **Subprime**

A Wall Street analyst said Wells Fargo and National City have the most risk among regional banks from subprime lending defaults. He indicated about 14% of Wells' total loans outstanding and nearly 9% of National City's were made to borrowers with subprime credit (FICO score less than 650), compared to 3% for larger banks such as Bank of America, Citi, Wachovia and others.

### **Housing**

According to new research, softness in the housing sector accelerated in the 4Q of 2006. Sales dropped in 40 states, median home prices fell in 50% of areas surveyed and sales declined nationally by 10.1% during the quarter. States hit hardest by the drop in sales included NV (down 36%), FL (down 31%), AZ (down 27%) and CA (down 21%).

### **Non Cash**

Credit and debit card usage account for 43% of all non-cash payments. In addition, about 9B checks are now being scanned and converted directly at the merchant level.

### **It Doesn't Matter**

A recent Harris survey finds that while employees know their internet and e-mail usage is monitored, 45% admitted they still use these company resources for personal reasons.

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